S/P. Mr. Hughes
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June 7, 1950

TO: The Secretary

THROUGH: S/S

FROM: NEA - Mr. McGhee

SUBJECT : Economic Aid to South Asia and the Near East.

I believe it essential that we develop a more positive policy of economic development assistance to the countries in South Asia and the Near East, and am anxious that you be informed of our preliminary thoughts at this early stage.

Most of these states have newly achieved their independence, have non-Communist governments, and face grave internal political and administrative problems; they are weak financially and are underdeveloped. All are exposed to Communist pressures. India, Pakistan and Afghanistan constitute the only countries on the borders of the USSR and its satellites for which there is no program of United States economic assistance. Experience has shown that countries in such close proximity to the USSR orbit need the stiffening and confidence provided by United States economic assistance. In the Arab countries there is added to their general weakness the internal pressures arising out of the emergence of Israel. Economic aid, which only we can provide, is necessary if we are to assure increased stability of the non-Communist governments of this region and maintenance of an increase in their western orientation.

ECA grant aid has been furnished Greece and Turkey on the west, and is now planned for the Southeast Asian countries starting with Burma on the East. Except for the limited Arab refugee program and small Export Import Bank loans to Saudi Arabia, Afghanistan, Israel and Egypt, no direct United States assistance has, however, been provided forthe half billion

people

DECLASSIFICATION DATE 6/28/78
PER VELIOTES OFFICE NEA
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DEPARTMENT OF STATE A/CDC/MR
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people in the intervening Near Eastern and South Asian area. Funds provided under Point Four are not adequate to make an impact on the needs of the area. Private capital has not been nor is likely to be available in sufficient quantities. Loans from the International Bank for Reconstruction and Development and Export Import Bank should be taken into consideration and will be helpful, but it is now evident that they will not be adequate to meet the need; they do not meet the basic problem faced everywhere of deficiency in local currencies for development purposes, and of inability to meet interest and amortization charges out of available foreign exchange on the volume of capital needed. It does not appear that the need in question can be met by any solution of the sterling balance problem yet considered.

I believe we should begin now to plan a program to enable the countries of South Asia - India, Pakistan, Ceylon, Afghanistan - beginning in FY 1952, to carry out developmental projects which would provide the basis for long-term progress in the economic sphere, particularly in agriculture. NEA has estimated, on the basis of present inadequate information, that at the outset the maximum amount required would be about $200,000,000 of U.S. grant aid annually. Provision should be made, where absolutely necessary, for local currency requirements. Such assistance should be supplemental to that from the country's own and, where applicable, Commonwealth sources, and should not be designed to meet balance of payments deficits. Execution of this program should be closely related to that of the proposed program for aid to Southeast Asia by use of Japanese yen counterpart. Consideration should be given to the advisability of having these programs administered by ECA or a parallel organization through country missions.

I hope that early reduction in the yearly amount will be possible as projects are completed and other economic and political factors improve. Concurrently with our planning, we will, of course, continue efforts to improve political conditions in South Asia.

With respect to the Arab states and Israel, a Palestine Rehabilitation Program is presently under way and a Point Four program is now in process of formulation. After some experience with these programs we will be in a better position to make additional recommendations for this area.

I hope that Point Four operations can be conducted with our political ends in mind. Point Four survey missions to the sub-continent, working closely with the Embassies, could lay a sound foundation for a Technical Assistance program. They also would be studying and assessing the proposed grant program.

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It is believed that the best strategy in the development of an economic assistance program for South Asia and the Near East is to lay a foundation through properly timed public statements by Department officials. Since there is already a Southeast Asian ECA program which was largely the result of Congressional initiative, this new program might be considered as an extension of a request for a continuation of Southeast Asia aid. An increase in the funds requested for South Asia and the Near East would be required. By this extension, provision would have been made for possible programs of assistance to all areas peripheral to Russia. Indeed, if one excludes the Western Hemisphere and Africa as being relatively stable regions, all world areas of instability or potential instability would have been covered, if and when they need help of an economic character.

A program of long-range development aid to Southern Asia is a major step in the formulation of our post-ERP foreign economic policy. It is desirable that this step be taken in a way that will make a maximum contribution to our objectives in other areas as well as in Southern Asia. For example; it would be desirable that the development programs to be financed in Southern Asia be of a type which, both during their execution and upon their completion, would, insofar as consistent with our objectives in Southern Asia, reduce the need for U.S. aid to Western Europe. These considerations are, I understand, receiving considerable emphasis in the study that Mr. Gordon Gray is making, as part of his current assignment, of the possible need for a major program of U.S. aid to under-developed Asiatic areas. It would be desirable that such programs as the Department may now begin to plan for these areas be consistent, insofar as possible, with the recommendations that Mr. Gray will make on this subject to the President and to the Public Advisory Committee to be appointed by the President.

RECOMMENDATIONS:

1. That the above tentative program be accepted as a basis for s planning, and that NEA, E, and S/P, and R establish a working group under NEA chairmanship to study economic assistance that might be provided South Asia and the Near East in FY 1952 and immediately succeeding years.

2. That steps be taken through the Diplomatic Missions in India, Ceylon and Pakistan for the purpose of obtaining either prompt establishment of Joint Commissions contemplated under the Point Four Act to plan the use of Point Four funds, or for a preliminary Point Four survey by a strong U.S. mission.

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Incidental

Incidental to this function, the American Members of the Joint Commission or the Point Four mission would consider, with the Embassy staffs, which might be expanded for this purpose, the justification and nature of needs which may later be embraced by the prospective assistance program. Afghanistan, how being studied by a UN economic mission, would probably not be included in this proposal.

3. That P consider the timing of statements by the Secretary and other officers of the Department laying the foundation of the South Asia program in the public mind, and with Congress.

CONCURRENCES:

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(Note: S/P is presenting a memorandum of comment. TCD's views are also presented in a separate memorandum attached.)

Attachment:

Memorandum from TCD

NEA:GCMcGhee
NEA:AZGardiner
NEA:SCA:DDKennedy:vm:red